

# Canadian Commercial Corporation



**2018-2019 Third Quarter**

**Financial Report**

**(Unaudited)**

**For the period ended**

**December 31, 2018**

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### BASIS OF PREPARATION

This discussion and analysis was prepared in accordance with the Treasury Board Standard on Quarterly Financial Reports for Crown Corporations and is not intended to be a full Management Discussion and Analysis.

The following discussion and analysis of the Canadian Commercial Corporation for the quarter ending December 31, 2018, should be read in conjunction with the enclosed unaudited condensed interim financial statements and notes as well as the Corporation's Annual Report for the year ended March 31, 2018.

The disclosures and information contained in the Canadian Commercial Corporation Annual Report for the year ended March 31, 2018, are also mostly applicable to the current quarter.

### INTRODUCTION

#### Mandate

Established in 1946, the Canadian Commercial Corporation (CCC) was created by articles of incorporation under the [Canadian Commercial Corporation Act](#) ("CCC Act") to assist in the development of trade between Canada and other nations. The [CCC Act](#) defines this role and provides the Corporation with a range of powers, particularly the ability to export goods from Canada either as a principal or as agent.

CCC is a parent Crown Corporation under Schedule III Part I of the *Financial Administration Act* ("FAA"), and reports to Parliament through the Minister of International Trade Diversification. As a Government of Canada entity authorized to execute commercial contracts with foreign government buyers, CCC is uniquely positioned to support Canadian exporters, and is focused on increasing Canada's trade footprint across diverse sectors and priority markets. CCC is headquartered in Ottawa, Ontario.

#### Services

As Canada's Government to Government (G2G) contracting organization, CCC's primary service involves reducing risk in complex international transactions. The Corporation does this through the execution of prime contracts with foreign government buyers to provide goods and services available for export from Canada. CCC guarantees the terms and conditions of the contracts with the foreign government buyers, mitigating the buyers' risk and providing an added incentive to procure from Canada. CCC then enters into contracts with Canadian exporters to fulfill the requirements of these G2G contracts.

Prior to entering into a transaction, CCC assesses the transaction's overall risk profile. This includes an in-depth analysis of the exporter's technical, managerial and financial capabilities to ensure it can fulfill all contractual obligations. CCC also reviews the exporter's ethical business practices. With respect to other risk drivers related to the transaction, CCC reviews human rights

issues, environmental impacts and the buyer's risk profile, as applicable. This holistic approach ensures that the transaction fits within CCC's risk tolerance and is in alignment with Government of Canada policies.

This risk analysis also sets the foundation for CCC's ongoing risk monitoring and contract management. In this regard, CCC is able to leverage its capacity as a Government of Canada organization to monitor progress and bring resolution to issues that may arise during the contract's lifecycle. CCC's involvement in contracts reduces payment collection risks and business development costs, aids in gaining more advantageous contract and payment terms for Canadian exporters, and promotes responsible business practices within the Canadian industry.

## **Business Lines**

CCC operates its business under three distinct business lines, International Commercial Business, Global Defence and Security and Other Business Activities.

### **International Commercial Business**

The International Commercial Business ("ICB") business line focuses on four key sectors: (1) aerospace (2) construction and infrastructure (3) clean technology ("clean tech"), environment, and energy, and (4) information and communications technology ("ICT"). These growth sectors reflect priority areas for foreign buyers and align with the Government of Canada's Export Diversification Strategy. CCC's ICB business line also includes the Cuba Contracting and the Electronic Lottery System Programs.

***Cuba Contracting Program*** - This program streamlines the procurement processes by matching Cuban procurement needs with Canadian sources of supply, transfers Cuban payment risk to Canadian financial institutions, and helps resolve contractual issues that may arise. Since the inception of the program in 1991, CCC's cumulative value of contracts with the Cuban Sugar and Tourism industries has reached more than \$1 billion. Canadian exporters using CCC's Cuba Contracting Program benefit greatly from CCC's G2G contracting mechanism.

***Electronic Lottery System Program*** – CCC's involvement brings transparency and credibility to the operation of the two "good cause" national electronic lotteries in Central America. These lotteries help generate funds to relieve poverty and provide educational and social support to youth and senior citizen populations, including through the establishment of a nationwide network of community computer access centres.

### **Global Defence and Security**

CCC's Global Defence and Security ("GDS") business line focuses on assisting Canadian companies to compete and secure sales in global defence markets. Sales to customers in this business line are comprised of goods from a broad spectrum of Canadian industries, including ICT and advanced manufacturing. This business line has two components: (1) sales to the United States Department of Defence (U.S. DoD) under the Defence Procurement Sharing Agreement (DPSA) and (2) aerospace, defence and security sales to other global markets.

***Sales to the U.S. DoD under the DPSA*** – CCC assists Canadian companies from a variety of sectors compete for contracts with the U.S. DoD in accordance with the terms and conditions of the DPSA and U.S. defence procurement regulations. Canadian exporters are also able to leverage the U.S. Foreign Military Sales program through access to the DPSA, which enables them to sell into the U.S. DoD inventory.

***Aerospace, Defence and Security Sales to Global Markets*** – Where there is alignment with the Government of Canada CCC assists Canadian companies in the aerospace, defence and security sectors to achieve sales with select foreign governments and North Atlantic Treaty Organization (“NATO”) allies. These sales build on the Corporation’s experience selling to the U.S. DoD and its Foreign Military Sales program.

### **Other Business Activities**

***Sourcing Services*** – CCC assists Government of Canada departments and agencies in efficiently and effectively sourcing goods and services to meet a variety of international commitments. The support is program specific and includes contracting services, contract structuring, contract management, project coordination, and project management. In this regard, CCC has supported a wide range of contributions and capacity-building programs: helping foreign governments in their efforts to fight cross-border crime (i.e. fraud, corruption, human trafficking); supporting anti-terrorism efforts (both domestic and international); and facilitating Canada’s contributions in other international endeavours (i.e. scientific or other collaborations).

***Canadian Trade Offices*** – On behalf of Global Affairs Canada CCC manages ten Canadian Trade Offices in China. These offices, located in China’s rapidly developing second-tier cities, provide support to Canadian companies as they seek to enter the Chinese market. CCC’s services provide a cost-effective solution for Global Affairs Canada.

### **INTERNATIONAL TRADE PORTFOLIO**

CCC is a member of the Government of Canada’s International Trade Portfolio. The Corporation’s contracting and procurement expertise complements the advisory services of Global Affairs Canada’s Trade Commissioner Service (“TCS”) and the financial services provided by Export Development Canada (“EDC”). CCC is critical in helping Canadian exporters win contracts in complex international government procurement markets. It is able to target more specific projects and exporters, and works in tandem with those exporters, principally in the G2G contracting space, to secure contract opportunities. CCC’s niche focus allows it to be strategic in its scope and to deliver exceptional direct support to its customers. CCC’s status as a contracting party to projects also provides a concrete opportunity to advance Canadian trade while concurrently achieving policy objectives such as strengthening innovative sectors, assisting SMEs, and promoting and entrenching responsible business conduct.

### **DIVERSIFICATION STRATEGY**

CCC is devoting significant resources to a Diversification Strategy implemented in 2017, with the goal of expanding the number of Canadian exporters and industries CCC supports, as well as the number of foreign buyers with whom CCC contracts. The strategy is setting a solid foundation for

growth. In this context, CCC is committed to identifying ways to meet the needs of a growing base of exporters across diverse markets. This includes ensuring the Corporation has a skilled workforce that is able to evolve.

In developing its Diversification Strategy CCC identified export-oriented industries with a potential for G2G demand, and a strategic importance to the Canadian economy in terms of employment, research and development, innovation and productivity. Following this analysis, five sectors were selected as follows: (1) aerospace (2) construction and infrastructure (3) clean tech, environment, and energy (4) ICT (5) defence.

### VALUE OF CONTRACTS SIGNED

Value of Contracts Signed ("VCS") is a non-GAAP measure that represents the value of contracts and amendments signed in a given period. It measures the total value of goods or services to be delivered over the entire duration of a contract and hence, includes the full contract value at the time of signature. The table below presents the VCS for the reporting periods.

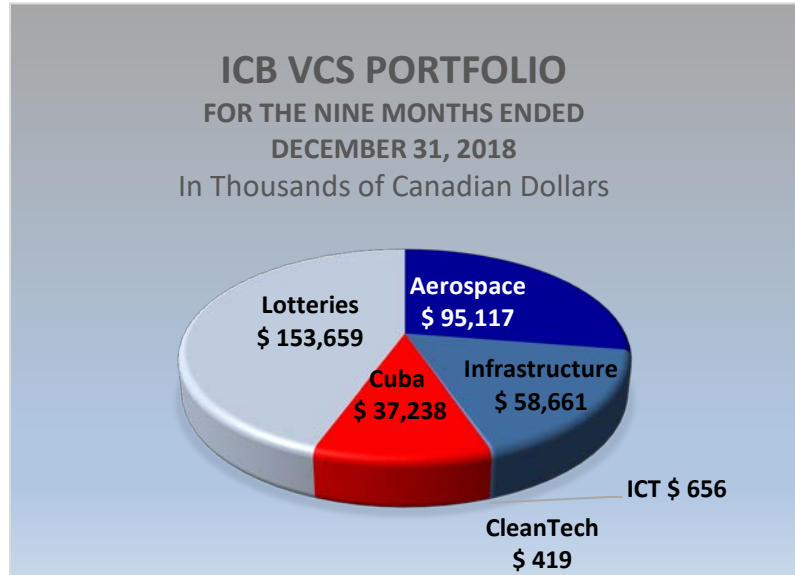
Value of Contract signed				
	For the 3 months ended		For the nine months ended	
	2018	2017	2018	2017
<b>ICB</b>				
Aerospace	-	-	95.1	-
Infrastructure	2.9	0.7	58.7	47.2
CleanTech	-	-	0.4	-
ICT	-	0.2	0.7	0.2
Cuba	15.4	7.5	37.2	56.3
Lotteries	51.4	47.3	153.7	153.9
<b>Total ICB</b>	<b>69.6</b>	<b>55.7</b>	<b>345.7</b>	<b>257.6</b>
<b>GDS</b>	-	-	-	-
DPSA	195.6	221.9	587.0	559.6
Global Markets	7.6	11.8	37.0	13.7
<b>Total GDS</b>	<b>203.2</b>	<b>233.8</b>	<b>624.0</b>	<b>573.3</b>
<b>Other</b>	-	-	-	-
Sourcing	2.1	7.1	3.1	12.4
Canadian Trade Offices	-	-	-	-
<b>Total Other</b>	<b>2.1</b>	<b>7.1</b>	<b>3.1</b>	<b>12.4</b>
<b>Total VCS</b>	<b>274.9</b>	<b>296.6</b>	<b>972.8</b>	<b>843.3</b>

As illustrated in the table above, the diversification strategy of the Corporation is beginning to show results. The Aerospace sector in the ICB business line has grown from no new contracts signed in the first three quarters of 2017-18 to over \$95.1 signed in the first half of 2018-19. The Clean Tech, Environment and Energy sector has also grown with over \$419 thousand in signed contracts.

The Corporation is now developing a diversified portfolio of projects for growth in the Canadian economy. Building on the strengths and expertise Canada has to offer the world, CCC's efforts in supporting exporters to gain access to global procurement contracts is starting to deliver results.

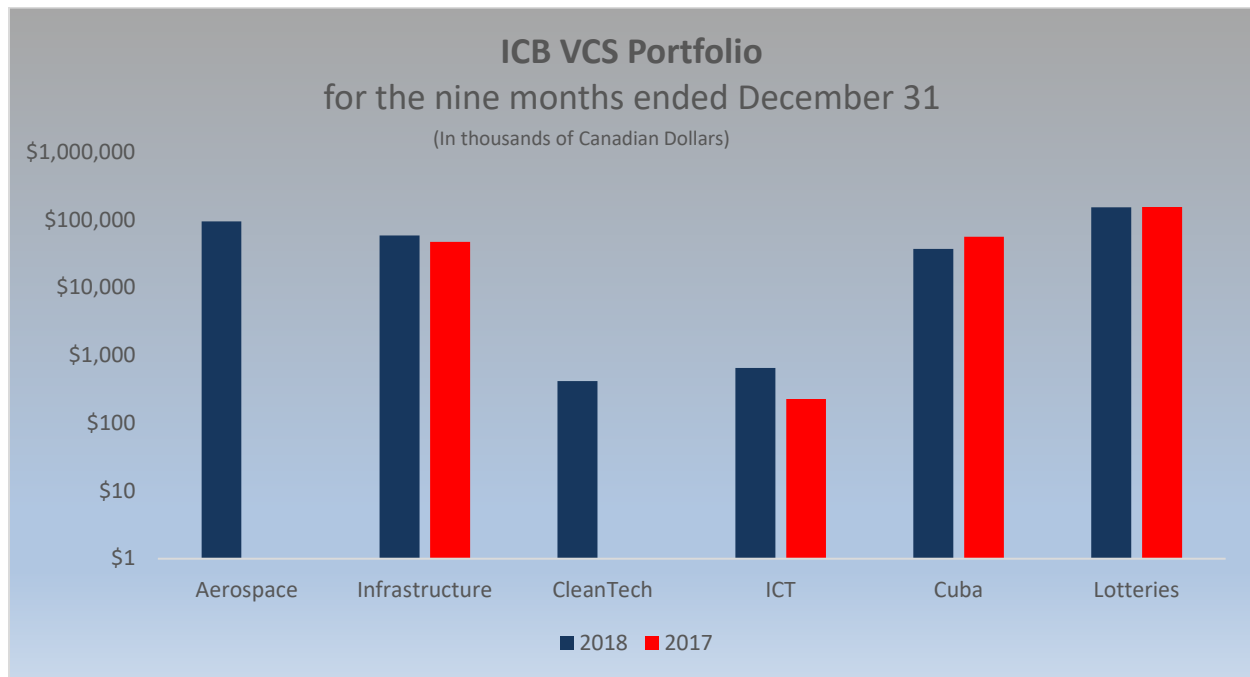
This chart illustrates the current portfolio mix of contracts signed by the CCC in the first nine months of 2018-19.

While the lottery contracts continue to provide a steady stream of contract value for the CCC, the aerospace, infrastructure, ICT and Clean Tech sectors are all on a growing trend. The diversification efforts in business development and outreach to Canadian exporters and foreign governments is beginning to show results.



The comparison of results year over year below indicates that the initiatives undertaken by the Corporation to bring Canadian expertise to the world via Government to Government contracting is having a noticeable impact on Canadian industries in the new targeted sectors.

The chart below, presented in logarithmic scale for illustrative purposes, shows growth in all sectors as of Q3 of 2018-19, except in the Cuba program where changes in the local policies are affecting the ability of the Corporation to grow contracts at this time, and in the lottery programs where revenue is stable.



## FINANCIAL RESULTS

Historically, large contracts have materially affected the Corporation's financial statements and have caused significant variations in certain year-over-year amounts on the Statement of Financial Position and the Statement of Comprehensive Income (Loss).

In late 2013-14, the Armoured Brigades Program (ABP), a historic multi-billion dollars 14-year contract, was signed for the supply of light armoured vehicles and associated equipment, training and support services. Due to the magnitude of this contract, related transactions may result in significant variations from period-to-period on certain accounts. The accounts impacted would most notably be receivables, payables, advances to Canadian exporters and from foreign buyers and others, progress work by Canadian exporters and for foreign buyers as well as revenues.

A discussion of CCC's financial highlights for the three and nine-month period ended December 31, 2018, follows.

Note that financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand, which can lead to differences due to rounding.

## STATEMENT OF COMPREHENSIVE INCOME (LOSS) DISCUSSION

### SUMMARY – NET LOSS

	FOR THE THREE MONTHS ENDED DECEMBER 31				FOR THE NINE MONTHS ENDED DECEMBER 31			
	2018	2017	Increase (Decrease) in net profit		2018	2017	Increase (Decrease) in net profit	
Revenues	\$ 6.5	\$ 5.9	\$ 0.6	10%	\$ 21.6	\$ 18.2	\$ 3.4	18%
Expenses	(7.4)	(7.9)	0.5	5%	(22.5)	(23.6)	1.1	5%
<b>Net profit (loss)</b>	<b>\$ (0.9)</b>	<b>\$ (2.0)</b>	<b>\$ 1.1</b>	<b>48%</b>	<b>\$ (0.9)</b>	<b>\$ (5.4)</b>	<b>\$ 4.5</b>	<b>83%</b>

For the three-month period ended December 31, 2018, the Corporation recorded a net loss of \$922 thousand from a combination of higher revenues and lower expenses when compared to the same period last year which had a higher loss. The higher revenues are due to a gain on foreign exchange and higher finance income. The larger than usual foreign exchange gain in this quarter is the result of a significant increase in the USD-CAD exchange rate as of December 31.

### REVENUES

	FOR THE THREE MONTHS ENDED DECEMBER 31				FOR THE NINE MONTHS ENDED DECEMBER 31				
	2018	2017	Increase (Decrease)		2018	2017	Increase (Decrease)		% of Total 2018
Commercial trading transactions									
- prime contracts	\$ 515.3	\$ 642.6	\$ (127.3)	(20%)	\$ 1,806.6	\$ 1,872.0	\$ (65.4)	(3%)	
transactions									
- prime contracts	(515.3)	(642.6)	127.3	20%	(1,806.6)	(1,872.0)	65.4	3%	
Fees for service	5.5	5.5	(0.0)	(1%)	18.9	16.7	2.2	13%	88%
Other income	0.1	0.2	(0.1)	(15%)	1.5	1.2	0.3	25%	7%
Finance income, net	0.3	0.2	0.1	38%	0.5	0.5	-	-	2%
Gain (Loss) on foreign exchange	0.6	-	0.6	>100%	0.7	(0.2)	0.9	>100%	3%
<b>Total Revenues</b>	<b>\$ 6.5</b>	<b>\$ 5.9</b>	<b>\$ 0.6</b>	<b>10%</b>	<b>\$ 21.6</b>	<b>\$ 18.2</b>	<b>\$ 3.4</b>	<b>18%</b>	<b>100%</b>

For the three-month period ended December 31, 2018, after offsetting commercial trading transactions with the cost of commercial trading transactions, total revenues were higher by \$0.6 or 10% compared to the prior year results. The nine-month period result is an overall increase of \$3.3 or 18% in revenue compared to the same period last year. Of the \$21.6 total revenues recorded in the nine-month period, \$6.5 or 30% is attributable to the three months ended December 31, 2018. The increase in total revenue for nine-month period when compared to the same period in the prior year is primarily attributable to an unrealized foreign exchange gains due to an increase in the USD-CAD exchange rate at December 31st and a larger USD receivable balance for fees for service.



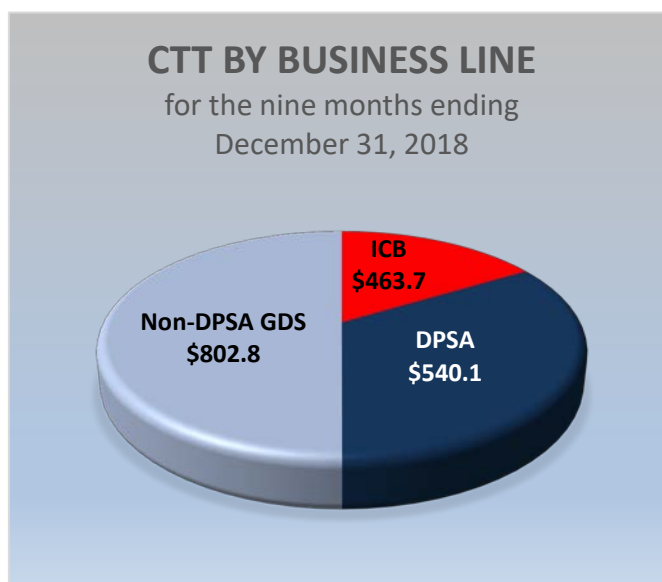
Normal business activities of the Corporation include providing payments early at discounted amounts under certain terms and conditions to Canadian exporters prior to collecting from foreign buyers, which provides a source of other income for the Corporation. The amount of discounted payments provided to Canadian exporters can fluctuate from period to period.

### COMMERCIAL TRADING TRANSACTIONS (CTT)

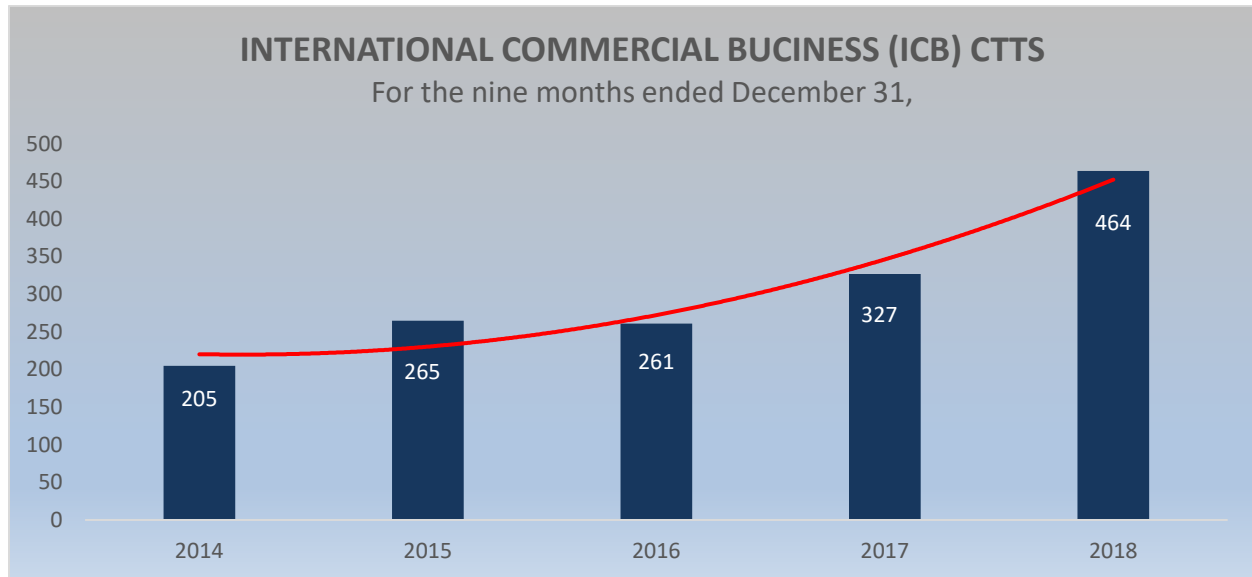
	FOR THE THREE MONTHS ENDED DECEMBER 31				FOR THE NINE MONTHS ENDED DECEMBER 31				
	2018	2017	Increase (Decrease)		2018	2017	Increase (Decrease)		% of Total 2018
<b>GDS:</b>									
DPSA	\$ 212.6	\$ 202.7	\$ 9.9	5%	\$ 540.1	\$ 569.4	\$ (29.3)	(5%)	30%
Non-DPSA GDS	125.0	348.9	(223.9)	(64%)	802.8	975.3	(172.5)	(18%)	44%
<b>Total GDS</b>	<b>\$ 337.6</b>	<b>\$ 551.6</b>	<b>\$ (214.0)</b>	<b>(39%)</b>	<b>\$ 1,342.9</b>	<b>\$ 1,544.7</b>	<b>\$ (201.8)</b>	<b>(13%)</b>	<b>74%</b>
<b>ICB</b>	<b>177.7</b>	<b>91.0</b>	<b>86.7</b>	<b>95%</b>	<b>463.7</b>	<b>327.3</b>	<b>136.4</b>	<b>42%</b>	<b>26%</b>
<b>Total CTT</b>	<b>\$ 515.3</b>	<b>\$ 642.6</b>	<b>\$ (127.3)</b>	<b>(20%)</b>	<b>\$ 1,806.6</b>	<b>\$ 1,872.0</b>	<b>\$ (65.4)</b>	<b>(3%)</b>	<b>100%</b>

Commercial trading transactions measure the value of goods or services delivered or progress work completed during the period. Since CCC acts as an international trade intermediary, revenues from commercial trading transactions on prime contracts are fully offset by the cost of commercial trading transactions on prime contracts.

For the nine-month period ended December 31, 2018, CCC's portfolio of contracts generating CTTs were distributed across three business lines as illustrated in the chart. The Global Defence and Security generate the largest share of CTTs for the Corporation with \$540.1 in the DPSA line of business and \$802.8 in the non-DPSA. The International Commercial Business line brought in \$463.7 in CTTs during the nine months, of which \$177.7 was generated in the last quarter. This represents a growth of 42% or \$136.4 for the nine months and 95% or \$86.7 when comparing the third quarters year over year. This growth in the ICB line is the result of efforts by the Corporation in diversifying its business offering beyond Global Defence and Security with the pursuit of business development initiatives in the five key business sectors presented previously.



Looking at the evolution of the ICB line over the last five years for the nine months demonstrates the effectiveness in the application of the diversification strategy to CCC's approach to support Canadian exporters in a broader spectrum of industries. Continued efforts and current deals in the contracting pipeline of the Corporation are expected to support this growth rate for the foreseeable future.



The overall decrease in CTTs of \$127.3 for the three months and \$65.4 for the nine months is mostly attributable to the following changes in contract deliveries and progress over the nine-month period:

- GDS
  - Reduction of contract deliveries in the DPSA business line of \$29.3
  - Lower contract deliveries on the ABP contract of \$195.7
  - Increase from Multi-Purpose helicopters to Montenegro of \$39.6

These are offset by increases in the activity in the ICB line as follows:

- ICB increased deliveries on ongoing projects
  - Expansion and rehabilitation of an airport on Bermuda of \$63.4
  - Potash sales to Bangladesh of \$15.9
- ICB new revenue from projects in 2018-2019
  - Rehabilitation of a football stadium in Cameroon of \$49.4
  - Cruise ship terminal building in St-Kitts & Nevis of \$31.9
- Reduction of activity in the Cuba program of \$29.0

Several other small contract variations across all business lines account for the remainder of the variation for the nine-month period.

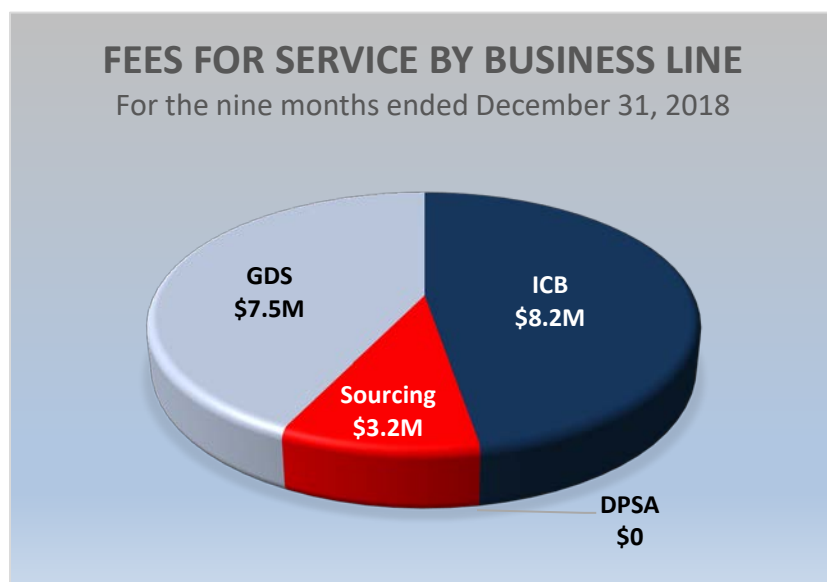
## FEES FOR SERVICE

	FOR THE THREE MONTHS ENDED DECEMBER 31				FOR THE NINE MONTHS ENDED DECEMBER 31				
	2018	2017	Increase (Decrease)		2018	2017	Increase (Decrease)		% of Total 2018
<b>GDS:</b>									
Non-DPSA GDS	\$ 1.1	\$ 3.2	\$ (2.1)	(65%)	\$ 7.5	\$ 8.5	\$ (1.0)	(12%)	40%
<b>Total GDS</b>	<b>\$ 1.1</b>	<b>\$ 3.2</b>	<b>\$ (2.1)</b>	<b>(65%)</b>	<b>\$ 7.5</b>	<b>\$ 8.5</b>	<b>\$ (1.0)</b>	<b>(12%)</b>	<b>40%</b>
<b>ICB</b>	<b>3.3</b>	<b>1.2</b>	<b>2.1</b>	<b>&gt; 100%</b>	<b>8.2</b>	<b>4.6</b>	<b>3.6</b>	<b>77%</b>	<b>43%</b>
<b>Sourcing and other GoC priorities</b>	<b>1.1</b>	<b>1.1</b>	<b>-</b>	<b>-</b>	<b>3.2</b>	<b>3.6</b>	<b>(0.4)</b>	<b>(11%)</b>	<b>17%</b>
<b>Total Fees for service</b>	<b>\$ 5.5</b>	<b>\$ 5.5</b>	<b>\$ (0.0)</b>	<b>(1%)</b>	<b>\$ 18.9</b>	<b>\$ 16.7</b>	<b>\$ 2.2</b>	<b>13%</b>	<b>100%</b>

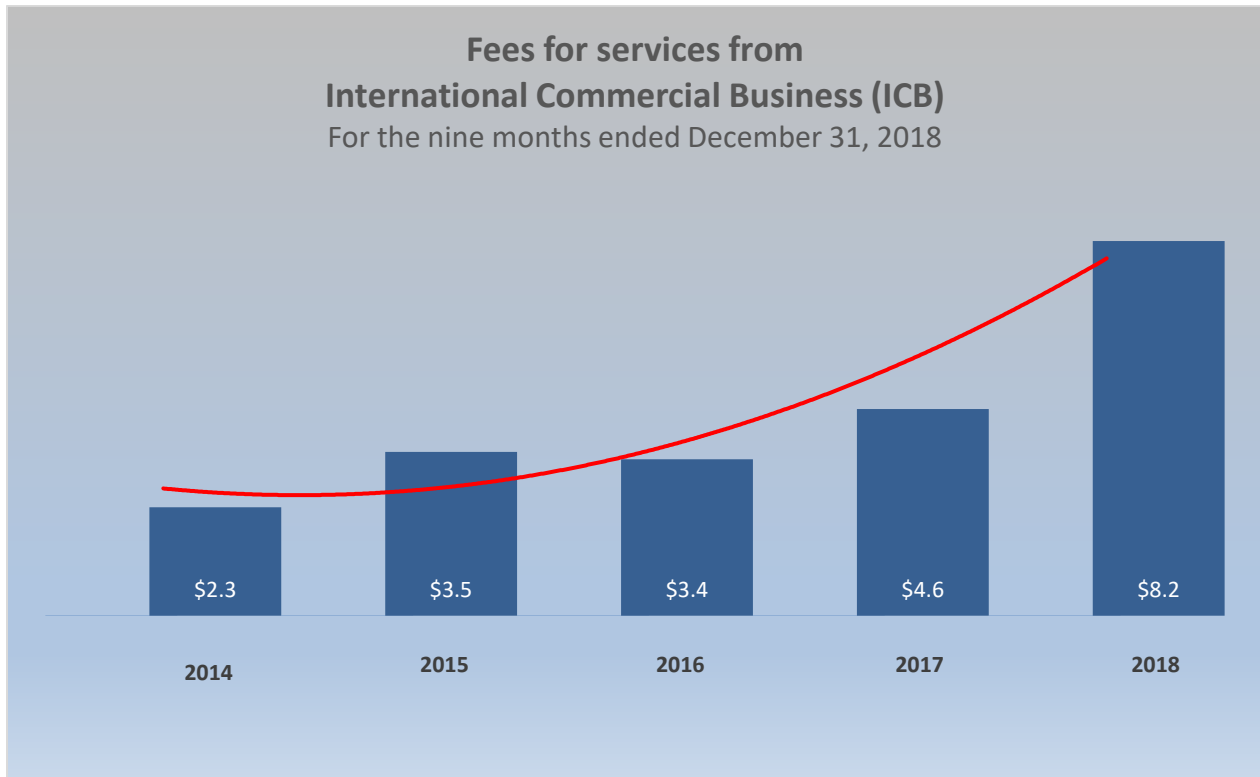
The Corporation charges fees for service on non-DPSA GDS and ICB business lines and other services, generally calculated as a percentage of the contract value. The rates for services provided, or fees for service are negotiated on a contract-by-contract basis. Fees are recognized as revenue when commercial trading transactions related to prime contracts and international sourcing services agreements are recorded and from other international and domestic activities when services are rendered. Pursuant to the DPSA agreement, CCC does not charge fees for service on the DPSA program. In addition to fees for service recorded from the non-DPSA core operations business line, CCC earns fees related to sourcing services transactions and other initiatives of Government of Canada departments and agencies.

Fee for services from the contract portfolio of the Corporation is illustrated in the chart on the right. Of the total GDS fees, 80% or \$5.9 are related to the ABP contract representing 34% of the total fees generated for the nine-month period.

ICB Fees for service contributed 43% of the total Fees for service as a result of continued growth in this business line from the diversification strategy and sectors of focus.



The five-year trend of Fees for service in the ICB line for the nine-month period demonstrates the effectiveness in the application of the diversification strategy to CCC's approach to support Canadian exporters in a broader spectrum of industries. Continued efforts and current projects in the contracting pipeline of the Corporation are expected to support this growth rate for the foreseeable future.



## EXPENSES

### ADMINISTRATIVE EXPENSES

	FOR THE THREE MONTHS ENDED DECEMBER 31				FOR THE NINE MONTHS ENDED DECEMBER 31				% of Total 2018
	2018	2017	Increase (Decrease)		2018	2017	Increase (Decrease)		
<b>Administrative</b>									
Workforce									
compensation and	\$ 5.0	\$ 5.5	\$ (0.5)	(9%)	\$ 15.1	\$ 15.8	\$ (0.7)	(4%)	66%
Contract	0.7	0.8	(0.1)	(18%)	2.0	2.2	(0.2)	(8%)	9%
Travel and hospitality	0.4	0.4	-	-	1.4	1.3	0.1	6%	6%
Rent and related	0.5	0.4	0.1	14%	1.3	1.3	-	-	6%
Consultants	0.4	0.3	0.1	70%	1.1	1.2	(0.1)	(8%)	5%
Software, hardware	0.1	0.1	-	-	0.6	0.6	-	-	3%
Depreciation	0.1	0.1	-	-	0.3	0.3	-	-	2%
Communications	0.1	0.2	(0.1)	(60%)	0.3	0.5	(0.2)	(37%)	1%
Other expenses	0.1	0.1	-	-	0.4	0.4	-	-	2%
<b>Total Administrative</b>	<b>\$ 7.4</b>	<b>\$ 7.9</b>	<b>\$ (0.5)</b>	<b>(5%)</b>	<b>\$ 22.5</b>	<b>\$ 23.6</b>	<b>\$ (1.1)</b>	<b>(5%)</b>	<b>100%</b>
<b>Contract remediation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0%</b>
<b>Total Expenses</b>	<b>\$ 7.4</b>	<b>\$ 7.9</b>	<b>\$ (0.5)</b>	<b>(5%)</b>	<b>\$ 22.5</b>	<b>\$ 23.6</b>	<b>\$ (1.1)</b>	<b>(5%)</b>	<b>100%</b>

For the nine-month period ended December 31, 2018, expenses were lower than the prior year period by \$1.1 or 5%, of which \$0.5 is attributable to the last three months. This decrease of 5% in administrative expenses is primarily related to lower expense in workforce compensation, contract management, consultant and communications expenses.

### CONTRACT REMEDIATION EXPENSES

Contract remediation expenses are recorded as actual amounts are incurred or can be reasonably estimated. For the three and nine-month periods ended December 31, 2018, no contract remediation expenses were recorded. The result reflects the Corporation's robust contract management and Enterprise Risk Management (ERM) practices.

**SOURCING SERVICES  
 IN SUPPORT OF GOVERNMENT OF CANADA INTERNATIONAL PROGRAMS**

	FOR THE THREE MONTHS ENDED DECEMBER 31				FOR THE NINE MONTHS ENDED DECEMBER 31			
	2018	2017	Increase (Decrease)		2018	2017	Increase (Decrease)	
Sourcing services	\$ 5.5	\$ 5.4	\$ 0.1	1%	\$ 13.7	\$ 20.9	\$ (7.2)	(34%)
Less: Cost of sourcing	(5.5)	(5.4)	(0.1)	(1%)	(13.7)	(20.9)	7.2	34%
	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	-

Sourcing services transactions are generally in support of international assistance programs, where the Corporation is not the prime contractor, but rather acts as an agent on behalf of Global Affairs Canada in accordance with a Memorandum of Understanding.

CCC also has sourcing services agreements with the National Research Council (NRC) and the Department of National Defence (DnD). For the three and nine-month periods ended December 31, 2018, the decrease in activity is related to normal fluctuations in the delivery of various projects. Various projects were completed in the current year explaining the decrease in sourcing services transactions compared to prior year.

**STATEMENT OF FINANCIAL POSITION DISCUSSION**

**SUMMARY**

	AS AT			
	December 31, 2018	March 31, 2018	Increase (Decrease)	
<b>Assets</b>	<b>\$ 8,303.5</b>	<b>\$ 7,135.2</b>	<b>\$ 1,168.3</b>	<b>16%</b>
<b>Liabilities</b>	<b>\$ 8,280.9</b>	<b>\$ 7,111.6</b>	<b>\$ 1,169.3</b>	<b>16%</b>
<b>Shareholder's equity:</b>				
Contributed surplus	10.0	10.0	-	-
Retained earnings	12.6	13.6	(1.0)	(7%)
<b>Total Shareholder's equity</b>	<b>\$ 22.6</b>	<b>\$ 23.6</b>	<b>\$ (1.0)</b>	<b>(4%)</b>

As an international trade intermediary, CCC's trade-related assets are offset with matching liabilities. Therefore, trade receivables, advances to Canadian exporters and progress work by Canadian exporters are normally offset by trade payables and accrued liabilities, advances from foreign buyers and others and progress work for foreign buyers, respectively. The decrease in retained earnings reflects the cumulative loss from the first nine months of the 2018-19 fiscal year.

## ASSETS

	AS AT				
	December 31, 2018	March 31, 2018	Increase (Decrease)	% of Total	
Cash and cash equivalents	\$ 26.3	\$ 43.4	\$ (17.1)	(39%)	< 1%
Trade receivables	2,071.1	1,212.7	858.4	71%	25%
Advances to Canadian exporters	663.5	144.3	519.2	> 100%	8%
Progress work by Canadian exporters	5,539.8	5,731.7	(191.9)	(3%)	67%
Property and equipment	2.8	3.1	(0.3)	(11%)	< 1%
<b>Total Assets</b>	<b>\$ 8,303.5</b>	<b>\$ 7,135.2</b>	<b>\$ 1,168.3</b>	<b>16%</b>	<b>100%</b>

The net increase in assets, compared to March 31, 2018, was primarily the result of an increase in trade receivables related to the ABP contract. As this contract is in the delivery phase, activity is expected to increase. Deliveries of the ABP contract are typically for significant amounts, which are reflected with the changes in balances of receivables, payables and progress work.

## LIABILITIES

	AS AT				
	December 31, 2018	March 31, 2018	Increase (Decrease)	% of Total	
Trade payables and accrued liabilities	\$ 2,053.0	\$ 1,191.4	\$ 861.6	72%	25%
Advances from foreign buyers and others	682.9	183.4	499.5	> 100%	8%
Progress work for foreign buyers	5,539.8	5,731.7	(191.9)	(3%)	67%
Deferred lease incentives	3.4	3.6	(0.2)	(5%)	< 1%
Employee benefits	1.8	1.5	0.3	8%	< 1%
<b>Total Liabilities</b>	<b>\$ 8,280.90</b>	<b>\$ 7,111.60</b>	<b>\$ 1,169.30</b>	<b>16%</b>	<b>100%</b>

The net increase in liabilities compared to March 31, 2018, was due to increases in the amount of trade payables and accrued liabilities mostly related to the ABP contract. As specific items of the ABP contract reached milestones, funds were received and recorded as advances, explaining the \$499.5 increase in advances. The net change to liabilities is directly related to the change in assets discussed earlier, due to the back-to-back nature of CCC's business model.

## SIGNIFICANT TRANSACTIONS IN ASSETS AND LIABILITIES

Given the back-to-back nature of CCC's contracting with foreign buyers and Canadian exporters, movements in assets and liabilities are closely related and are mostly offsetting.

The increases in trade receivables and trade payables and accrued liabilities when compared to March 31, 2018, were due primarily to increased receivable and payable transactions related to

the ABP contract reflecting the progress work recorded during the first nine months of the fiscal year combined with timing differences in collection of those receivables.

Of the total progress work by Canadian exporters and for foreign buyers, \$5.3 billion or 97% was related to continued progress work on the ABP contract.

The increase in advances from foreign buyers and others and advances to Canadian exporters, is almost entirely related to the ABP contract with new funds received for services to be provided in the future, partially offset by the liquidation of the advances on four projects: the construction of a parking complex in Ghana, the rehabilitation of a football stadium in Cameroon, the construction of a cruise ship pier terminal in St-Kitts & Nevis and several initiatives in the sourcing services business line on behalf of Canadian government entities.

Of the \$682.9 in advances from foreign buyers and others, \$663.5 or 97% were passed on to Canadian exporters. Contractually, advances are not offered on DPSA contracts. For some non-DPSA contracts, CCC may hold back some advance payments made by foreign buyers as a risk mitigation practice and release them to Canadian exporters as delivery obligations are fulfilled. Additionally, CCC receives advances related to sourcing services for Government of Canada departments prior to making sourcing payments. As a result, there are period-over-period variations due to the timing of collection and payments.

## STATEMENT OF CASH FLOWS DISCUSSION

### SUMMARY

	FOR THE THREE MONTHS ENDED DECEMBER 31				FOR THE NINE MONTHS ENDED DECEMBER 31				% of Total 2018
	2018	2017	Increase (Decrease)	(%)	2018	2017	Increase (Decrease)	(%)	
Operating activities	\$ (37.0)	\$ 2.5	\$ (39.5)	<(100%)	\$ (17.3)	\$ (34.0)	\$ 16.7	49%	101%
Investing activities	-	-	-	-	-	(0.1)	0.1	100%	0%
Effect of exchange rate changes	0.4	1.2	(0.8)	(62%)	0.2	(0.7)	0.9	>100%	(1%)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (36.6)</b>	<b>\$ 3.7</b>	<b>\$ (40.3)</b>	<b>&lt;(100%)</b>	<b>\$ (17.1)</b>	<b>\$ (34.8)</b>	<b>\$ 17.7</b>	<b>51%</b>	<b>100%</b>

Under the DPSA program, the Corporation generally pays its Canadian exporters within thirty days of receipt of an invoice and substantiating documentation according to the terms and conditions of the contract. Consequently, the Corporation may use its own cash to pay Canadian exporters on or before the 30<sup>th</sup> day, funding its trade receivables, in instances where there are collection delays and payment is not received from the DPSA buyer in the same timeframe as payments made to Canadian exporters. On certain contracts (generally outside of the DPSA program), the Corporation pays its Canadian exporters within five business days after CCC receives payment from the foreign buyer. Depending on the timing of receipts compared to



payments, these transactions can span across reporting periods and can cause variations in cash flows from one period to the next. In these instances, cash is provided to the Corporation at the end of one period with the payment made to the Canadian exporter, as stipulated in the contract, early in the next period.

The decrease in cash is primarily due to the Corporation's operating activities combined with the effect of exchange rate fluctuations on cash. The decrease in cash from operating activities in the three and nine-month periods is primarily related to timing differences in the collection of receivables on the ABP contract in comparison to the prior year.

### COMPARISON OF FINANCIAL RESULTS TO THE 2018-19 TO 2022-23 CORPORATE PLAN

The Government of Canada has not yet approved the CCC 2018-19 to 2022-23 Corporate Plan.

Statement of Comprehensive income	For the nine month period ended December 31, 2018			
	Actual	Corporate Plan	Variance	
<b>Revenues</b>				
Commercial trading transactions				
- prime contracts	\$ 1,806.6	\$ 1,784.7	\$ 21.9	1%
Less: cost of commercial trading transactions				
- prime contracts	(1,806.6)	(1,784.7)	(21.9)	-1%
Fees for service	18.9	19.8	(0.9)	-5%
Other income	1.5	0.4	1.1	> 100%
Finance income, net	0.5	0.6	(0.1)	-17%
Gain on foreign exchange	0.7	-	0.7	100%
	21.6	20.8	0.8	4%
<b>Expenses</b>				
Administrative expenses	22.5	25.4	(2.9)	-11%
	22.5	25.4	(2.9)	-11%
<b>Sourcing services for support of Government of Canada programs</b>				
Sourcing services transactions	13.7	14.4	(0.7)	-5%
Less: cost of sourcing services transactions	(13.7)	(14.4)	0.7	5%
	-	-	-	-
<b>Net profit (loss)</b>	<b>\$ (0.9)</b>	<b>\$ (4.6)</b>	<b>\$ 3.7</b>	<b>80%</b>

During the nine-month period, the favourable variance of \$3.7 in Net loss compared to the Corporate Plan is due to a higher than planned level of other income (\$1.1) and a gain on foreign exchange (0.7). Additionally, lower than expected administrative expenses mostly due to staff vacancies (\$2.9) partially offset by lower than planned fees for services (\$0.9) contributed to the result. The favourable variance of \$21.9 or 1% related to commercial trading transactions is mostly aligned with planned amounts.

Fees for service are earned as contract work is delivered or completed. The unfavourable variance of \$0.9 or 5% was due primarily to timing differences in GDS Fees for service earned on the progress work that was below planned amounts for the reporting period.

The favourable variance of \$1.1 compared to plan in other income is due to an increase in early payments requested by Canadian exporters at discounted amounts.

The Corporation manages exchange gains and losses through monitoring and maintaining its foreign currency balances at an adequate level to eliminate liabilities in that currency and does not budget for gains or losses on foreign exchange. At December 31, 2018, the Corporation held cash in Chinese Renminbi (CNY) and USD in various bank accounts. The amount exposed to currency risk in Chinese Renminbi was negligible, while the exposure to USD foreign exchange of \$6.0 represents approximately 0.1% of its U.S. denominated assets.

Administrative expenses are paid primarily in Canadian dollars and, as such, are not impacted by foreign exchange fluctuations. The favourable variance of \$2.9 related to administrative expenses resulted primarily from savings realized due to staff vacancies during the nine months ended December 31, 2018.

## **2018-19 CORPORATE PLAN FULL YEAR FORECAST & OUTLOOK**

The Government of Canada has not yet approved the CCC 2018-19 to 2022-23 Corporate Plan.

Net revenues for 2018-19 are expected to increase compared to the prior year due mostly to delivery activity on projects signed prior to 2018-19. In comparison to the Corporate Plan, net revenues are expected to be lower as a result of delays in signing new ICB and GDS contracts in 2018-19.

Administrative expenses for 2018-19 are expected to be marginally higher than prior year due to inflationary increases related to workforce compensation. In comparison to the Corporate Plan, administrative expenses are expected to be lower as a result of actions taken by management to reduce expenses in response to the lower revenues forecasted.

## **CCC'S COMMITMENT TO RISK MANAGEMENT**

CCC manages various risks as it undertakes to fulfill its mandate of promoting and facilitating international trade on behalf of Canadian exporters. The strategy for managing these risks is discussed in detail in the Corporation's fiscal 2017-18 Annual Report and 2018-19 Corporate Plan Summary.

Management continues to align its corporate social responsibility framework with that of the Government of Canada. Collaboration with other Government stakeholders ensures that a consistent approach and decision-making process is in place when assessing Canadian exporters on issues related to bribery and corruption as well as buyer human rights records.

Cyber risk is an ongoing threat, as cyber-attacks appear to be the new reality. Numerous improvements to CCC's information systems were implemented during the past year and the Corporation continues to evolve its approach to cyber risk management.

Except for the changes mentioned above, there are no other significant changes, new risks or uncertainties identified during the period ended December 31, 2018, as compared to those previously reported or discussed.

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as Management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements. These quarterly financial statements have not been audited or reviewed by an external auditor.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the period presented in the quarterly financial statements.



Martin Zablocki  
President and  
Chief Executive Officer



Ernie Briard  
Vice-President, Corporate Services and  
Chief Financial Officer

Ottawa, Canada  
February 18, 2019

## Statement of Financial Position (Unaudited)

As at (in thousands of Canadian dollars)	December 31, 2018	March 31, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalent (note 4)	\$ 26,275	\$ 43,355
Trade receivables (notes 5 and 7)	2,071,183	1,212,712
Advances to Canadian exporters (note 6)	663,476	144,294
Progress work by Canadian exporters (note 6)	5,539,848	5,731,733
	<b>8,300,782</b>	<b>7,132,094</b>
<b>Non-current assets</b>		
Property and equipment	2,757	3,096
	<b>\$ 8,303,539</b>	<b>\$ 7,135,190</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities (notes 5 and 7)	\$ 2,053,023	\$ 1,191,322
Advances from foreign buyers and others (note 6)	682,935	183,401
Progress work for foreign buyers (note 6)	5,539,848	5,731,733
Employee benefits	206	206
	<b>8,276,012</b>	<b>7,106,662</b>
<b>Non-current liabilities</b>		
Deferred lease incentives	3,422	3,621
Employee benefits	1,456	1,336
	<b>8,280,890</b>	<b>7,111,619</b>
<b>SHAREHOLDER'S EQUITY</b>		
Contributed surplus	10,000	10,000
Retained earnings	12,649	13,571
	<b>22,649</b>	<b>23,571</b>
	<b>\$ 8,303,539</b>	<b>\$ 7,135,190</b>

Guarantees (note 14)

*The accompanying notes are an integral part of the financial statements.*

Authorized for issue on February 18, 2019



**Martin Zablocki**  
 President and  
 Chief Executive Officer



**Ernie Briard**  
 Vice-President, Corporate Services and  
 Chief Financial Officer

Statement of Comprehensive Income (Loss) (Unaudited)

<b>(in thousands of Canadian dollars)</b>	<b>For the three months ended December 31</b>		<b>For the nine months ended December 31</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>REVENUES</b>				
Commercial trading transactions				
- prime contracts (note 9)	\$ 515,279	\$ 642,580	\$ 1,806,632	\$ 1,872,027
Less: cost of commercial trading transactions				
- prime contracts	(515,279)	(642,580)	(1,806,632)	(1,872,027)
Fees for service (note 9)	5,440	5,519	18,870	16,733
Other income (note 9)	182	214	1,532	1,224
Finance income, net (note 10)	220	159	451	482
Gain (loss) on foreign exchange	568	(58)	687	(235)
	<b>6,410</b>	<b>5,834</b>	<b>21,540</b>	<b>18,204</b>
<b>EXPENSES</b>				
Administrative expenses (note 11)	7,477	7,889	22,462	23,593
	<b>7,477</b>	<b>7,889</b>	<b>22,462</b>	<b>23,593</b>
<b>SOURCING SERVICES FOR SUPPORT OF INTERNATIONAL GOVERNMENT ASSISTANCE PROGRAMS</b>				
Sourcing services transactions (note 9)	5,458	5,405	13,686	20,875
Less: cost of sourcing services transactions	(5,458)	(5,405)	(13,686)	(20,875)
	-	-	-	-
<b>NET LOSS</b>	<b>\$ (1,067)</b>	<b>\$ (2,055)</b>	<b>\$ (922)</b>	<b>\$ (5,389)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO NET PROFIT (LOSS)</b>				
Actuarial gain (loss) on employee benefits obligation	-	-	-	-
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>\$ (1,067)</b>	<b>\$ (2,055)</b>	<b>\$ (922)</b>	<b>\$ (5,389)</b>

The accompanying notes are an integral part of the financial statements.

## Statement of Changes in Equity (Unaudited)

For the three and nine months ended December 31, 2018 (in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
<b>BALANCE SEPTEMBER 30, 2018</b>	<b>\$ 10,000</b>	<b>\$ 13,716</b>	<b>\$ 23,716</b>
Net loss	-	(1,067)	(1,067)
<b>BALANCE DECEMBER 31, 2018</b>	<b>\$ 10,000</b>	<b>\$ 12,649</b>	<b>\$ 22,649</b>
<b>BALANCE MARCH 31, 2018</b>	<b>\$ 10,000</b>	<b>\$ 13,571</b>	<b>\$ 23,571</b>
Net loss	-	(922)	(922)
<b>BALANCE DECEMBER 31, 2018</b>	<b>\$ 10,000</b>	<b>\$ 12,649</b>	<b>\$ 22,649</b>

For the three and nine months ended December 31, 2017 (in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
<b>BALANCE SEPTEMBER 30, 2017</b>	<b>\$ 10,000</b>	<b>\$ 15,580</b>	<b>\$ 25,580</b>
Net loss	-	(2,055)	(2,055)
<b>BALANCE DECEMBER 31, 2017</b>	<b>\$ 10,000</b>	<b>\$ 13,525</b>	<b>\$ 23,525</b>
<b>BALANCE MARCH 31, 2017</b>	<b>\$ 10,000</b>	<b>\$ 18,914</b>	<b>\$ 28,914</b>
Net loss	-	(5,389)	(5,389)
<b>BALANCE DECEMBER 31, 2017</b>	<b>\$ 10,000</b>	<b>\$ 13,525</b>	<b>\$ 23,525</b>

*The accompanying notes are an integral part of the financial statements.*

## Statement of Cash Flows (Unaudited)

(in thousands of Canadian dollars)	For the three months ended December 31		For the nine months ended December 31	
	2018	2017	2018	2017
<b>OPERATING ACTIVITIES</b>				
Net loss	\$ (1,067)	\$ (2,055)	\$ (922)	\$ (5,389)
Adjustments to determine net cash from (used in) operating activities:				
Depreciation	113	113	339	334
Employee benefit expense	50	50	148	149
Employee benefit payments	(28)	-	(28)	(99)
Effect of exchange rate changes on cash and cash equivalents	(442)	(1,169)	(226)	626
Deferred lease incentives	(67)	(66)	(199)	(199)
Change in working capital from:				
Trade receivables	(210,358)	408,237	(858,471)	(215,711)
Advances to Canadian exporters	(524,322)	31,496	(519,182)	70,271
Trade payables and accrued liabilities	203,320	(407,605)	861,701	189,311
Advances from foreign buyers and others	495,821	(26,564)	499,534	(73,321)
Cash from (used by) operating activities	(36,980)	2,437	(17,306)	(34,028)
<b>INVESTING ACTIVITIES</b>				
Acquisitions of property and equipment	-	-	-	(110)
Cash used in investing activities	-	-	-	(110)
Effect of exchange rate changes on cash and cash equivalents	442	1,169	226	(626)
Net increase (decrease) in cash and cash equivalents	(36,538)	3,606	(17,080)	(34,764)
Cash and cash equivalents at the beginning of period	62,813	38,060	43,355	76,430
Cash and cash equivalents at the end of period	\$ 26,275	\$ 41,666	\$ 26,275	\$ 41,666

*The accompanying notes are an integral part of the financial statements.*



## Notes to Financial Statements

December 31, 2018

### 1. Nature, organization and funding

The Canadian Commercial Corporation (the “Corporation”) was established in 1946 by the *Canadian Commercial Corporation Act* (“Act”), is wholly owned by the Government of Canada and is an agent Crown corporation listed in Part I of Schedule III of the *Financial Administration Act* (“FAA”). The Corporation is domiciled in Canada with a head office located at 350 Albert Street, Ottawa, Ontario. The Corporation operates primarily in Canada with representation in Asia and South America.

The Corporation acts as the prime contracting agency when foreign governments, international organizations, or foreign private sector buyers wish to purchase products and services from Canada through the Government of Canada. The Corporation enters into contracts with these foreign buyers and into corresponding supply contracts with Canadian exporters. Additionally, the Corporation enters into sourcing services agreements to procure goods and services for international end use on behalf of the Government of Canada and foreign governments.

The Corporation’s operations are funded primarily by fees for service.

In September 2008, the Corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the *FAA*, entitled *Order giving a direction to parent Crown corporations involved in commercial lending to give due consideration to the personal integrity of those they lend to or provide benefits to in accordance with Government’s policy to improve the accountability and integrity of federal institutions*. The Corporation implemented the directive effective January 1, 2010, and has remained compliant with the directive since.

In July 2015, the Corporation was issued a directive (P.C. 2015-1110) pursuant to section 89 of the *FAA* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Corporation’s next corporate plan. The Corporation implemented the directive in August 2016 and has remained compliant with the directive since then.

The Corporation is not subject to the provisions of the *Income Tax Act*.

## 2. Basis of preparation

### ***Compliance with International Financial Reporting Standards (IFRS)***

These condensed interim financial statements have been prepared in accordance with the Treasury Board of Canada *Standard on Quarterly Financial Reports for Crown Corporations* using the International Financial Reporting Standards ("IFRS") accounting policies adopted in the Corporation's audited annual financial statements as at and for the year ended March 31, 2018. These condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's Annual Report and audited financial statements for the year ended March 31, 2018.

As permitted by the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, management has elected to only reflect the changes from adoption of IFRS 15 and IFRS 9 standards in the Corporation's audited financial statements for the year ended March 31, 2019. This constitutes a departure from generally accepted accounting principles for the first application of IFRS 15 and IFRS 9, as the quarterly financial statements for the current period do not include the impact of the new accounting standards.

### ***Basis of measurement***

The financial statements have been prepared on the historical cost basis, except for as permitted by IFRS and to the extent material, the following items:

- Derivative financial instruments are measured at fair value through profit or loss.
- Accrued employee benefit liabilities for post-employment benefit plans are recognized at the present value of the defined benefit obligations.

### ***Use of estimates and judgments***

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ significantly from estimates resulting in significant differences in the related financial statement balances.

Estimates and underlying assumptions are reviewed on an ongoing basis and in detail as at the date of the financial statements. Any changes in estimates are reflected in the financial statements in the period in which they become known and in any future periods affected. Management has used estimates to determine the useful lives of property and equipment, to account for employee benefits liabilities, provisions, lease commitments and contingencies and used judgment in determining whether a provision for contract remediation expenses should be recognized or disclosed.

Information about areas where management has exercised judgment and made significant use of estimates and assumptions are included in Note 14 – Guarantees.

**Functional and presentation currency**

The Corporation's functional and presentation currency is the Canadian dollar.

**3. Significant accounting policies**

The accounting policies applied in the preparation of these condensed interim financial statements are consistent with those disclosed in the Corporation's audited annual financial statements for the year ended March 31, 2018.

**4. Cash and cash equivalents**

Cash and cash equivalents included:

	December 31, 2018		March 31, 2018	
	Original currency	Canadian dollars	Original currency	Canadian dollars
Canadian dollars	29,711	\$ 29,711	32,171	\$ 32,171
Chinese renminbi	3,760	746	1,706	349
Euros	-	-	15,809	25,058
U.S. dollars	(3,064)	(4,182)	(11,039)	(14,223)
		\$ 26,275		\$ 43,355

The components of cash and cash equivalents were:

	December 31, 2018	March 31, 2018
Cash	\$ (3,327)	\$ 20,476
Notice deposits	10,183	10,014
Short term investments	19,419	12,865
Cash and cash equivalents	\$ 26,275	\$ 43,355

Advances and holdbacks received from foreign buyers and others which will be remitted to Canadian exporters at later dates in accordance with contracts amounted to \$25.7 million as at December 31, 2018 (March 31, 2018 - \$45.0 million). Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign buyer.

## 5. Trade Receivables and Trade Payables and Accrued Liabilities

Trade receivables are based on normal international trade terms and are generally non-interest bearing. The Corporation's trade receivables consisted of the following:

	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Accrued receivables	\$ 603,274	\$ 946,738
Trade receivables	<b>1,467,909</b>	265,974
	<b>\$ 2,071,183</b>	<b>\$ 1,212,712</b>

The currency profile of the Corporation's trade receivables as follows:

	<b>December 31, 2018</b>		<b>March 31, 2018</b>	
	<b>Original currency</b>	<b>Canadian dollars</b>	<b>Original currency</b>	<b>Canadian dollars</b>
U.S. dollars	<b>1,513,362</b>	\$ 2,065,890	935,022	\$ 1,204,682
Canadian dollars	<b>4,322</b>	<b>4,322</b>	5,795	5,795
Euros	<b>607</b>	<b>949</b>	1,410	2,235
Chinese renminbi	<b>112</b>	<b>22</b>	-	-
		<b>\$ 2,071,183</b>		<b>\$ 1,212,712</b>

Trade payables and accrued liabilities are due on normal trade terms. The Corporation's trade payables and accrued liabilities consisted of the following:

	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Accrued liabilities	\$ 601,383	\$ 941,689
Trade payables	<b>1,446,519</b>	246,779
Deferred revenues	<b>5,121</b>	2,854
	<b>\$ 2,053,023</b>	<b>\$ 1,191,322</b>

The currency profile of the Corporation's trade payables and accrued liabilities were as follows:

	<b>December 31, 2018</b>		<b>March 31, 2018</b>	
	<b>Original currency</b>	<b>Canadian dollars</b>	<b>Original currency</b>	<b>Canadian dollars</b>
U.S. dollars	<b>1,496,240</b>	\$ 2,042,517	907,207	\$ 1,168,845
Canadian dollars	<b>9,543</b>	<b>9,543</b>	8,641	8,641
Euros	<b>607</b>	<b>949</b>	8,649	13,708
Chinese renminbi	<b>72</b>	<b>14</b>	623	128
		<b>\$ 2,053,023</b>		<b>\$ 1,191,322</b>

Credit, market and liquidity risks relating to trade receivables and to trade payables and accrued liabilities are disclosed in Note 7.

## **6. Advances from foreign buyers and others, advances to Canadian exporters, progress work by Canadian exporters and progress work for foreign buyers**

Advances received from foreign buyers and others prior to work being performed and advances paid to Canadian exporters, under contract terms and conditions, are liquidated as the work is performed or upon delivery and acceptance by the foreign buyer in the normal course of business. During the nine months ended December 31, 2018, the Corporation received \$585,089 in advances from foreign buyers and others (March 31, 2018 - \$113,949) and \$583,060 advance payments were paid to Canadian exporters (March 31, 2018 - \$44,643). The amount of advances expected to be recognized into income and expense over the next twelve months are respectively \$485,042 and \$466,372 (March 31, 2018 - \$161,433 and \$126,710) with the remaining \$197,893 and \$197,104 (March 31, 2018 - \$21,968 and \$17,584) to be recognized in more than twelve months.

Given the back-to-back nature of the Corporation's contracting with foreign buyers and Canadian exporters, the balances of progress work by Canadian exporters and progress work for foreign buyers are reduced by amounts that are equal and opposite. The reductions expected due to deliveries over the next twelve months are \$2,298,701 (March 31, 2018 - \$2,951,585) with the remaining \$3,241,147 (March 31, 2018 - \$2,780,148) to be delivered in more than twelve months.

## **7. Risk Management and Financial Instruments**

As described in the Corporation's Annual Report and audited financial statements for the year ended March 31, 2018, the Corporation is exposed to credit risk, market risk and liquidity risk as a result of holding financial instruments. The following is a description of the most significant risks associated with financial instruments and how the Corporation manages its risk exposure:

### **(a) Credit risk.**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation and arises principally from the Corporation's cash and cash equivalents and trade receivables from foreign buyers. The carrying amount of financial assets recorded in the financial statements represents the maximum exposure to credit risk.

### **Cash and Cash Equivalents**

The Corporation invests surplus funds to earn investment income with the objective of maintaining safety of principal and providing adequate liquidity to meet cash flow requirements. The Corporation's exposure to credit risk from investing cash and cash equivalents is minimized through compliance with the Corporation's Board of Directors approved investment policy, which includes approved investment instruments and portfolio limits. The Corporation invests cash and cash equivalents in highly liquid demand deposits and temporary investments with a Canadian

chartered bank. Investments must maintain credit ratings at or above thresholds identified from at least two of the agencies listed below:

- Moody's rating of P1
- Standard and Poor's (S&P) rating of A1
- Dominion Bond Rating Service (DBRS) rating of R1 (low)

**Trade receivables**

The Corporation generally mitigates credit risk related to trade receivables from export transactions through the domestic contracts with Canadian exporters. This is achieved through a back-to-back payment mechanism whereby exporters are paid when the Corporation has received the related payment from the foreign buyers. Where a foreign buyer is rated AAA by recognized rating agencies, the Corporation may agree to pay the Canadian exporter in advance of receiving the foreign buyer's payment, thereby creating a credit exposure. With the AAA rating, the credit risk is deemed mitigated and acceptable. During the nine months ended December 31, 2018, 3% (March 31, 2018, - 4%) of the Corporation's trade receivables were from AAA credit rated foreign buyers.

The maximum exposure to credit risk for trade receivables by geographic region was as follows:

	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Asia *	\$ 1,964,450	\$ 1,147,480
United States	67,326	43,319
Central America and Caribbean	18,506	5,096
South America	14,725	7,732
Africa	2,730	3,451
Canada	2,497	3,399
Europe	949	2,235
	<b>\$ 2,071,183</b>	<b>\$ 1,212,712</b>

\* Includes Middle East

The maturity profile of the Corporation's trade receivables was as follows:

	<b>December 31, 2018</b>	<b>March 31, 2018</b>
< 1 year	\$ 2,064,606	\$ 1,211,825
> 1 and < 3 years	6,577	887
	<b>\$ 2,071,183</b>	<b>\$ 1,212,712</b>

Trade receivables are considered past due when the payor has failed to make the payment by the contractual due date.

The ageing profile of the Corporation's past due trade receivables was as follows:

	<b>December 31, 2018</b>	<b>March 31, 2018</b>
< 30 days	\$ 81,335	\$ 5,229
> 30 days and < 180 days	696,511	8,048
> 180 days	220,766	1,021
	<b>\$ 998,612</b>	<b>\$ 14,298</b>

The significant increase in past due trade receivables is mostly attributable to the ABP contract. As the contract enters the delivery phase, the timing of invoicing and collections can have a significant impact when comparing figures from prior periods. All overdue trade receivables are considered fully collectable by the Corporation.

### ***Collateral***

Commercial securities that have been pledged as collateral by Canadian exporters in the unlikely event of contractual non-performance were as follows:

	<b>December 31, 2018</b>	<b>March 31, 2018</b>
Holdbacks	\$ 6,279	\$ 5,927
Parent guarantees	\$ 13,878,312	\$ 14,414,241

The amounts above approximate the fair values of collateral held.

### **(b) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Corporation is not exposed to significant currency risk, interest rate risk or other price risk. The Corporation has no significant derivatives or embedded derivatives that require recognition as an asset or liability on the Statement of Financial Position.

### **(c) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is minimized through compliance with the Corporation's investment policy whereby cash and cash equivalents is invested in highly liquid demand deposits and temporary investments with a Canadian financial institution in order to meet financial obligations on a timely basis.

A potential claim for damages on non-performance of contractual obligations could create liquidity risk for the Corporation. To mitigate this risk, the Corporation has contractual recourse that consists of, in all material respects, back-to-back contractual obligations from Canadian exporters in an amount equal to the value of the contract. In addition, in order to further mitigate

its overall liquidity risk exposure from non-performance on contracts, depending upon the results of its due diligence, the Corporation may supplement this recourse by requiring commercial securities including holdbacks, bank guarantees, surety bonds, parent guarantees, insurance assignments, property liens, personal guarantees and shareholder cash held in trust with the Corporation.

Under contract terms, payments to Canadians exporters usually are not made in advance of receipt of payment from foreign buyers, and therefore do not expose the Corporation to liquidity risks.

The *Canadian Commercial Corporation Act* permits the Corporation to borrow from the Consolidated Revenue Fund or enter into other credit arrangements or indemnities from other sources for an amount not to exceed \$90.0 million.

The Corporation has a revolving credit facility providing access to funds for \$40.0 million (March 31, 2018 - \$40.0 million) Canadian or its U.S. dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at December 31, 2018, the draw on this line of credit was \$4.2 million (March 31, 2018 – \$14.2 million).

***Trade Payables and Accrued Liabilities***

Trade payables and accrued liabilities are due on normal trade terms. The maturity profile of the Corporation’s trade payables and accrued liabilities were as follows:

	<b>December 31, 2018</b>	<b>March 31, 2018</b>
< 1 year	\$ 2,050,951	\$ 1,191,322
> 1 and < 3 years	1,385	-
> 3 and < 5 years	687	-
	<b>\$ 2,053,023</b>	<b>\$ 1,191,322</b>

Due to the back-to-back nature of CCC’s contracting operations, the trade payables balances are largely related to corresponding amounts in trade receivables presented earlier in this note. There are no onerous contracts identified as at December 31, 2018, and as at March 31, 2018.



## 8. Capital Management

The Corporation's objective with respect to capital is to preserve and strengthen its capital base through prudent risk management. This, coupled with the implementation of strategies to optimize operating surpluses ensures that capital is available to facilitate investments in people and processes and to mitigate any potential losses related to operational, performance and credit risk.

Key strategies used by the Corporation to manage its capital base include minimizing contract remediation expenses, balancing smart growth with operating expenses, minimizing foreign exchange exposure, optimizing interest income. The Corporation may be required to return to the Government of Canada any part of capital deemed to be in excess of the amount required for the purposes for which the Corporation was constituted.

The Corporation's breakdown of supply of capital is as follows:

	<b>December 31, 2018</b>		<b>March 31, 2018</b>	
Contributed surplus	\$	<b>10,000</b>	\$	10,000
Retained earnings		<b>12,649</b>		13,571
	\$	<b>22,649</b>	\$	23,571

## 9. Commercial trading transactions, fees for service, other income and sourcing services transactions

The Corporation facilitates sales of Canadian goods and services to foreign buyers including governments, international agencies and other buyers and receives revenues from commercial trading transactions related to prime contracts, fees for service and other income. The Corporation also engages in transactions related to sourcing services for support of international programs.

For the three and nine-month periods ended December 31, the profile by geographic region is as follows:

	For the three months ended December 31					
	2018			2017		
	Revenues*	Sourcing transactions	Total	Revenues*	Sourcing transactions	Total
Asia **	\$ 177,068	\$ 2,269	\$ 179,337	\$ 346,345	\$ 1,525	\$ 347,870
United States	212,283	1	212,284	202,903	-	202,903
Central America and Caribbean	108,798	407	109,205	75,195	798	75,993
Africa	21,928	1,731	23,659	101	37	138
Europe	33	-	33	868	-	868
South America	-	-	-	22,452	-	22,452
Canada	791	1,050	1,841	449	3,045	3,494
	<b>\$ 520,901</b>	<b>\$ 5,458</b>	<b>\$ 526,359</b>	<b>\$ 648,313</b>	<b>\$ 5,405</b>	<b>\$ 653,718</b>

\* Revenues include revenue related to Commercial Trading Transactions, Fees for Service and Other Income.

\*\* Includes Middle East

	For the nine months ended December 31					
	2018			2017		
	Revenues*	Sourcing transactions	Total	Revenues*	Sourcing transactions	Total
Asia **	\$ 845,218	\$ 6,472	\$ 851,690	\$ 993,081	\$ 7,115	\$ 1,000,196
United States	540,107	1	540,108	570,065	1	570,066
Central America and Caribbean	320,169	515	320,684	276,380	1,583	277,963
Africa	68,852	4,438	73,290	11,246	1,769	13,015
Europe	40,913	-	40,913	4,472	9	4,481
South America	9,142	-	9,142	32,929	-	32,929
Canada	2,633	2,260	4,893	1,714	10,398	12,112
Australia	-	-	-	97	-	97
	<b>\$ 1,827,034</b>	<b>\$ 13,686</b>	<b>\$ 1,840,720</b>	<b>\$ 1,889,984</b>	<b>\$ 20,875</b>	<b>\$ 1,910,859</b>

\* Revenues include revenue related to Commercial Trading Transactions, Fees for Service and Other Income.

\*\* Includes Middle East

## 10. Finance income, net

For the three and nine-month periods ended December 31, the Corporation has recorded finance income and cost in relation to the following financial instruments:

	For the three months ended December 31		For the nine months ended December 31	
	2018	2017	2018	2017
<b>Financial assets</b>				
Finance income earned on cash and cash equivalents	\$ 290	\$ 208	\$ 676	\$ 624
<b>Financial liabilities</b>				
Finance cost on payables and other liabilities	(70)	(49)	(225)	(142)
	\$ 220	\$ 159	\$ 451	\$ 482

## 11. Administrative expenses

Administrative expenses for the three and nine-month periods ended December 31 included the following:

	For the three months ended December 31		For the nine months ended December 31	
	2018	2017	2018	2017
Workforce compensation and related expenses	\$ 4,993	\$ 5,470	\$ 15,020	\$ 15,681
Contract management services	661	807	1,984	2,157
Travel and hospitality	447	439	1,391	1,309
Rent and related expenses	489	430	1,297	1,347
Consultants	441	259	1,144	1,238
Software, hardware and support	101	71	565	558
Depreciation	113	113	339	334
Communications	90	227	330	524
Other expenses	142	73	392	445
	\$ 7,477	\$ 7,889	\$ 22,462	\$ 23,593

## 12. Parliamentary appropriation

No appropriation was authorized by the Parliament of Canada since the end of 2016-2017 fiscal year.

## 13. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties, and as such the transactions approximate fair value.

#### 14. Guarantees

As prime contractor, the Corporation is contractually obligated to complete contracts with foreign buyers ensuring that the terms of the contract are fulfilled regardless of performance by the Canadian exporter. The Corporation also engages in the fulfilment of contractual obligations related to sourcing services for support of international assistance programs.

The total prime and sourcing services contract portfolio value remaining to be fulfilled was as follows:

	<b>December 31, 2018</b>	<b>March 31, 2018</b>
< 1 year	\$ 3,517,311	\$ 4,120,254
> 1 and < 3 years	7,371,277	5,166,214
> 3 and < 5 years	3,717,692	4,449,648
> 5 years	110,951	1,390,006
<b>Total contract portfolio</b>	<b>\$ 14,717,231</b>	<b>\$ 15,126,122</b>

During the nine months ended December 31, 2018, the value of contracts and amendments signed and effective, representing contractual amounts to be fulfilled, amounted to \$972.8 million (December 31, 2017 - \$843.3 million).